



Testimony of
Leo W. Gerard, International President
United Steelworkers of America

Before the
Senate Finance Committee

The Steel Industry in Crisis

February 13, 2002

Mr. Chairman and distinguished members of the Senate Finance Committee, thank you for the invitation to appear before you today to discuss the unprecedented crisis facing the American steel industry and several hundred thousand steelworkers, retirees, and their families.

We meet today three weeks to the day before President Bush may literally decide the fate of the American steel industry. The 21 days from now until then are -- in the view of our members -- nothing short of a **Final** Countdown to Justice.

Three short weeks in which the President will decide whether or not to save some 700,000 steelworkers, steelworker retirees and surviving spouses and the communities where they live and work from utter devastation. President Bush now has the opportunity to follow through on his vision when he told steelworkers in Pennsylvania last September that "Steel is an important jobs issue. It's also an important national security issue."

Only tariffs of at least 40 percent can prevent this disaster -- a disaster that has already launched a parade to oblivion for virtually every American steelmaker.

Under U.S. laws, only strong tariffs will break the 30-year cycle of predatory practices employed by our trading partners to undermine America's global leadership in steel.

Only strong tariffs can prevent continuation of the trade violations that have unanimously been ruled by the International Trade Commission (ITC) to have caused serious injury to our markets.

Only strong tariffs can prevent unfair trade from continuing to short-circuit the profitability of the world's most productive steel industry.

And only President Bush has the power to invoke these tariffs.

That's why we consider these next three weeks a Countdown to Justice.

Because the President has taken the first crucial step toward justice by calling on the ITC to conduct its Section 201 investigation.

Now we urge you to join us in calling on the President to fulfill the hope of justice he has created.

We urge you to join us in calling on him to save the American steel industry and the hundreds of thousands of active and retired steelworkers who have given their labor and their lives to forge the most dynamic steel industry in the world.

Anything less would be an injustice to the victims of unfair trade – the nearly three-quarters of a million American steelworkers and retirees who have worked to defend this nation and keep it economically strong. They do not deserve to see their worklives, their retirements, and their hope of health security in old age threatened with extinction by unfair trade.

I. INDUSTRY IN CRISIS

This is an industry in crisis. It is a crisis caused by deliberate decisions made by foreign governments and corporations going back over three decades and by the repeated unwillingness of our own government to insist upon the strong enforcement of our trade laws. In short, this crisis could have been avoided had the proper actions been taken early on. We are now faced with the enormous consequences of that failure.

As of today, 31 steel companies representing nearly 30 percent of U.S. steelmaking capacity have filed for bankruptcy. Twenty-one steelmaking plants are idled or shutdown representing the loss of 25 million tons or 19 percent of this nation's steelmaking capacity *in just the last two years*. In total, over 50 steelmaking or related plants have shut down or been idled since January, 2000.

While some analysts mistakenly believe that mini-mills (which produce steel by melting scrap in electric arc furnaces) haven't been hurt by unfair trade and record-low prices, it is noteworthy that **fifteen of these 21 shutdowns are mini-mills**. Indeed, shutdown steel capacity is almost evenly divided between integrated steelmakers and minimills. In late 1997, the steel industry was operating at nearly 98 percent of capacity. By the end of 2001, it had fallen under 70 percent.

Steel prices have fallen to the lowest levels in twenty years. The December, 2001 composite average of steel prices published by *Purchasing Magazine* had declined by \$140 per ton or 33 percent from the average between 1994 and 1997. The industry posted a combined operating loss of \$1.3 billion during the first nine months of 2001.

The impacts of these shutdowns for steelworkers, their families, and the communities where they live and work are devastating. Over 43,000 steelworkers and 3,100 iron ore miners have lost their jobs since January, 1998. Worse yet, a looming disaster is facing 600,000 steelworker retirees, their surviving spouses and dependents who are in jeopardy of losing their health care benefits from steel companies facing bankruptcy.

How did this happen?

In late 1997 and early 1998, the USWA warned our policymakers that the Asian crisis and the collapse of the Russian economy would, if not dealt with correctly, lead to a flood of imported steel. The delay in responding dramatically at that time worsened the situation, leading to the most serious crisis for our steel industry since 1980.

In the pre-crisis period from July, 1994 to June, 1997, monthly imports of steel mill products averaged 2.4 million net tons. By the end of 1998, the figure was 4.5 million net tons. Imports of semi-finished steel increased from 2.4 million net tons in 1990 to 9.5 million net tons in 2000. Also, during the 1998-99 period, the financial strength of many steel producers was dramatically weakened as the surge of imports led to the collapse of domestic steel prices. This, in turn, shook the confidence of the financial markets and has made it next to impossible for the industry to raise needed capital in the equity and debt markets. Without access to these markets, the industry is unable to raise the funds for vitally-needed modernization projects.

In 1999, with the expedited treatment of anti-dumping cases and diplomatic pressure, there was a brief respite. At that time, the USWA warned that incremental steps taken country-by-country or product-by-product, would simply invite ever-more inventive circumvention of trade rules. Reducing imports of a limited number of products from a limited number of countries would, without a comprehensive approach, inevitably lead to the dumping of different products by different countries.

In July, 2000, the Commerce Department released its *Report to the President: Global Steel Trade – Structural Problems and Future Solutions*, which promised vigorous enforcement of our trade laws, a policy of zero tolerance for unfair trade, and to press those most responsible for the import surge to trade fairly and return imports to their pre-crisis levels.

The Commerce Department report meticulously documented the state of the global market for steel.

Among its key findings were the following:

- There has been a thirty-year history of repeated unfair trade actions which are symptomatic of underlying market-distorting practices in the global steel market;
- One way or another, steel companies around the world benefit from government practices and policies that forestall adjustments mandated by the market. As a result, market forces are not able to bring world capacity and supply in line with demand;
- The world steel industry is characterized by a variety of non-competitive practices. The effect of such practices is that investment decisions as well as pricing and sales almost certainly are different from what would occur in a purely competitive market.

For the year 2001, steel imports totaled 30 million net tons. This was the fifth consecutive year that imports have exceeded 30 million tons. Recent declines in steel imports have closely followed the imposition of tariff relief in particular product cases. But despite the lower tonnage now coming into the U.S., imports continue to exert a distorting impact upon domestic steel prices.

In 2001, at the urging of the industry and the USWA, the administration initiated a Section 201 investigation on steel. Following one of the most complex 201 investigations in its history, the U.S. International Trade Commission (ITC) ruled unanimously that nearly 80 percent of the product lines of the American steel industry have been seriously damaged

by surges of low-priced foreign imports, many of which have been illegally dumped in our market.

After determining broad injury to the steel industry, the ITC next turned its attention to recommending appropriate remedies to the President. The ITC has recommended the imposition of tariffs over a four-year period ranging from 20 percent up to 40 percent. The President is expected to decide by March 6 what remedies he will impose.

We are urging the President, along with many members of Congress, to impose the 40 percent tariffs across the board for four years. Only by taking the strongest action possible will the President be able to signal to our trading partners that we intend to enforce our trade laws. Only by taking the strongest possible action by imposing 40 percent tariffs will the President send a message to deter further dumping and other predatory practices by our trading partners. Only by imposing the maximum 40 percent tariff for four years will the President provide our industry and our steelworkers the time they need to recover, stabilize, and return to profitable operations.

The USWA opposes quota-based remedies, such as the tariff-rate quotas advocated by a number of foreign producers, because we do not believe they would offer real relief to the domestic industry. We have already seen in a number of steel dumping cases how creative foreign producers can be in shifting their product lines to fall outside the definition of antidumping orders. We do not want an illusory solution to the steel crisis. We want a real solution to the steel crisis.

Some have said that the steel industry and our steelworkers need to face up to the fact that the industry must be restructured. Restructuring is inevitable given the calamity in this industry. It is worth noting, however, that we have been down this road before.

Between 1980 and 1987, the American steel industry underwent a painful restructuring, eliminating 42 million tons of steelmaking capacity. Over 270,000 jobs were eliminated. We saw the tax base in steel communities in Pennsylvania, Ohio, Indiana, West Virginia, Minnesota, and elsewhere shrink as workers went from earning a paycheck to collecting unemployment benefits. Thousands of iron ore miners abandoned towns in Michigan and northeastern Minnesota's "Iron Range" when jobs were lost. The exodus had a strong adverse affect upon the local tax base in these

communities which were forced to curtail local government support for schools, transportation, and public safety. Many of these communities have never recovered from this economic blow.

This restructuring, along with over \$60 billion in capital investments since 1980 by U.S. producers, resulted in major productivity gains. In fact, American steelworkers and steel producers have become the most productive in the world. We increased tons shipped per hour worked by 180 percent from 0.1 in 1980 to .28 in 2000. The restructuring of the industry not only led to increased capital expenditures and increased productivity. It also left the steel industry with the highest retiree health care costs in the world.

For over twenty years, while the U.S. steel industry has restructured itself and eliminated capacity, many of our trading partners have dramatically increased their capacity. OECD data indicates that foreign steel producers had excess raw steel production capacity amounting to over 270 million metric tons. That is more than twice the total annual steel consumption in the United States.

On February 8, after two days of talks in Paris at the OECD, steel producing countries reportedly agreed that by 2005 they anticipated reductions of about 120 million tons in their combined steelmaking capacity. Despite the significant elimination of U.S. capacity even as foreign nations continue to add further capacity, the OECD members still expect the U.S. industry to eliminate even more capacity over the next three years. Also, we fully expect that OECD member nations will find ways to circumvent their supposed agreements to eliminate their own domestic overcapacity. We firmly believe that the source of our steel crisis is 200 million tons of global overcapacity which exists abroad and that much of that overcapacity is dumped in the U.S. market. The outcome of the Paris talks is instructive. It illustrates once again that multilateral negotiations are no substitute for strong enforcement of our own trade laws, including Section 201.

China has built what is now the largest steel industry in the world through a series of government five-year plans with a combination of massive investments and huge debt write-offs.

Japan added an incredible 93 million tons of capacity between 1965 and 1974, representing nearly half of all capacity added in the Western

world during this period. Japan's Ministry of International Trade and Industry (MITI) has administered a long-standing cartel which has enabled its integrated mills to maintain high, stable prices. Imports are sharply curtailed and surpluses are dumped in export markets.

Korea has used its control over its domestic banking system to channel low-interest loans to the steel industry since the 1970s, fueling a dramatic expansion in capacity from 2 million metric tons in 1975 to 43 million tons in 1998 – far in excess of what Korea's domestic market can absorb.

Brazil has pumped at least \$14 billion into its state-owned steel sector between 1977 and 1986. By the mid 1980s, Brazil was producing approximately 7 million tons of steel beyond its apparent consumption.

Ukraine inherited a large part of the Soviet steel industry and has become the world's eighth largest steelmaker. The country exports 60 percent of its finished steel output. The government props up struggling firms to prevent bankruptcies and keep private investors outside.

India has emerged as the tenth largest steelmaker in the world thanks to massive government financial support, import protection, export subsidies, and the sanctioning of cartels by domestic steelmakers.

Foreign steel has been more heavily subsidized than any other manufacturing sector in history.

Since 1980, steel producers outside of North America have received well over \$100 billion in direct government subsidies. These funds have created many new mills that would not otherwise have been built, and have enabled many producers which otherwise would have shut down long ago not only to survive, but to continue exporting.

Among major steel producing countries, the United States and Canada are the only countries that have eliminated their excess capacity and produce less raw steel than they consume.

In contrast, market distortions abroad have allowed foreign mills to maintain and increase their excess capacity.

There is another reason for the President to impose the highest possible tariffs on steel imports. The health care of every active steelworker, retiree, and their spouses and children is at jeopardy.

At the end of 1999, American steel's retiree health care benefit obligation totaled an estimated \$13 billion. Health benefits for 600,000 retired steelworkers, surviving spouses, and dependents annually cost domestic steel producers an estimated \$965 million or \$9 per ton of steel shipped. Several steel companies have retiree health care costs that are substantially higher than the industry average. Our active members and retirees are concentrated most heavily in Pennsylvania, Ohio, Indiana, Illinois, West Virginia, Minnesota, and Michigan, but they live all across the nation.

In the U.S., we have made a policy choice in favor of employment-based health insurance coverage rather than guaranteed national health insurance. This means that when an employer goes bankrupt or liquidates, absent a social safety net, workers are at risk of losing their health insurance and access to health care services.

The demise of LTV Steel is the most recent example of this burgeoning crisis. On December 21, 2001, just four days before Christmas, a Federal bankruptcy court in Youngstown, Ohio agreed to the liquidation of LTV, one of the nation's largest integrated producers of steel. The decision also places in immediate jeopardy the health care benefits of 85,000 active steelworkers, retirees, surviving spouses, and dependents.

Geneva Steel in Utah is self-insured for medical care. It is the only recipient, to date, of a federal steel loan guarantee under the Byrd Steel Loan Guarantee Act passed by Congress. The initial estimate is that over \$3 million in unpaid employee medical bills were pending when the company filed for bankruptcy on January 25, 2002. Because Citibank and the Federal Loan Guarantee Board have, to date, refused to give Geneva permission to pay these bills, over one thousand Geneva employees face the prospect of health care providers going after them for these unpaid bills, some amounting to tens of thousands of dollars. To have this happen at the same time that our members and other company employees have lost their jobs is yet one more example of the urgent need to put in place a safety net for the health care of active steelworkers and retirees.

The USWA is very proud of its record in negotiating decent health care coverage for both its active workers and retirees. In 1993, the USWA negotiated pre-funding of retiree health care in the iron ore industry. Benefits provided to steel industry retirees are equivalent and, in some cases, more modest, than benefits provided to retirees from other basic manufacturing companies, such as Alcoa, Boeing, and General Motors.

These plans typically include cost containment provisions, such as deductibles, co-payments, pre-certification requirements, coordination with Medicare, and incentives to utilize managed care. Most of our retirees pay monthly premiums equal to 25 percent of the total health care cost, plus deductibles and copayments. Retiree premiums for major medical coverage vary by employer due to differences in demographics, regional health care costs, utilization, and design of the plan. The USWA estimates that the average major medical premium during 2001 was approximately \$200 per month for a non-Medicare eligible couple and \$150 per month for a Medicare-eligible couple.

American steel's international competitors do not bear a similar burden. In one form or another, foreign producers' retiree health care costs are offset by government subsidies.

In Canada, every Canadian is a beneficiary of government-funded health care.

In Spain, the European Union approved \$10.4 million in subsidies last year to the shipbuilding industry.

In Germany and Spain, these governments provided subsidies to their iron ore industries.

In Japan, the government provides government-backed insurance programs. Government subsidies cover some administrative costs and contributions to Japan's health care programs for the elderly.

In the United Kingdom, the UK's National Health Service is 85 to 95 percent funded from general taxation with the remainder coming from employer and employee contributions.

In Germany, health care is financed through a combination of payroll taxes, local, state, and federal taxes, copayments and out-of-pocket expenses, and private insurance. Insurance funds with heavy loads of retired members receive government subsidies.

In Russia, de facto government subsidies exist. While Russian steel companies theoretically pay for workers' health care, the national and local governments allow companies not to pay their bills – including taxes and even wages. At the end of 1998, Russian steel companies owned an estimated \$836 million in taxes. According to the Commerce Department report, the Russian government's "systematic failure to force large enterprises to pay amounts to a massive subsidy."

The U.S. is the only country in the industrial world in which the health care benefits of retirees are not assumed by government to facilitate consolidation in one form or another. It is now very clear that American steelworker retirees stand to be hit twice by the collapse of the steel industry since a majority of them were **involuntarily** forced into retirement (350,000) – many prematurely -- during the massive restructuring of the steel industry during the late 1970s and the 1980s. Our government's inadequate, and inadequately enforced trade laws are the principal reason that these retirees' health care benefits are now at risk.

Because our government has allowed this unlevel and unfair trade environment to exist and grow for over thirty years, government now has a responsibility to this industry and its workers and retirees.

The President has it in his power to prevent this human disaster by invoking the strongest possible tariffs under Section 201 and directing those tariffs into a trust fund to relieve the legacy cost obligations of American steel producers.

This solution to the problem of legacy costs has three key advantages:

- It prevents those who are violating our trade laws from victimizing steelworkers and steelworker retirees any further;

- It creates a more level playing field in the global steel marketplace by providing American steel producers with the same sort of relief already being provided to our foreign competitors by their own governments; and
- * It can be achieved with no increase in taxes and no additional cost to the Federal budget.

Vigorous enforcement of our trade laws is absolutely essential if this industry is to have any chance at all of recovery. While we applaud the ITC's actions in the Section 201 case last year, I must also note that the ITC failed to provide relief in a series of cold-rolled cases in 2000, despite evidence that subject imports had doubled and prices had collapsed. This action sent a signal of non-enforcement to the market and has been a major additional cause of the continuing steel crisis. Any response to this steel crisis will fail unless the Bush Administration follows a policy of full and strict enforcement of the trade laws.

The U.S. must take aggressive action to prevent the further erosion of trade remedies through the WTO dispute settlement system. Not surprisingly, foreign countries who are the biggest offenders of WTO-sanctioned trade remedies are now seeking to weaken these rules in the new round of negotiations launched in late 2001 in Doha. Any legislation granting so-called "fast track" or Trade Promotion Authority (TPA) should make clear that the trade laws, including antidumping and countervailing duties (CVD) are not subject to renegotiation and will not be covered under fast track rules.

On behalf of all of our steelworkers and retirees, we urge you in the strongest possible terms to contact President Bush at the earliest opportunity and urge him to impose the maximum 40 percent tariffs on all subject steel product lines.

The American steel industry was built over the course of this nation's history through the blood, sweat, tears, sacrifices, and lives of our steelworkers. This is the industry that built America's skyscrapers, factories, bridges, and highways. This is the industry that made the steel that won World War II in its tanks, ships, guns, and planes. Saving America's steel industry should not just be my concern and the concern of the Steelworkers union; it should be the cause and the concern of all Americans.